
FISCAL FOCUS

MICHIGAN'S VETERANS PROGRAMS

Prepared by:

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November 2000



Mitchell E. Bean, Director

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November 2000

TO: Members of the House of Representatives

With approximately 900,000 veterans living in Michigan, the state's veterans programs are often a topic of interest to legislators and their constituents. This **Fiscal Focus** provides an overview of Michigan's major veterans programs:

- " The state veterans homes in Grand Rapids and Marquette,
- " The grants made by the state to veterans service organizations,
- " The Emergency Grant and Tuition Grant programs funded by the Veterans Trust Fund,
- " The recent appropriations for the Michigan Vietnam Veterans Memorial and the National World War II Memorial, and
- " The alternate property tax credit for veterans.

Additionally, the report examines the trend in state veterans-related spending over the last two decades and places Michigan's veterans programs in the context of programs offered by other states. An executive summary of the report information follows the introduction.

Kyle I. Jen, Fiscal Analyst, wrote this report; Jeanne Dee, Administrative Assistant, prepared the report for publication. We appreciate the assistance of Hugh Hess, Chief of Staff for the Michigan Veterans Affairs Directorate, and Anne-Marie Dutcher, Director of the Michigan Veterans Trust Fund, who reviewed a draft of the report and provided suggestions.

We hope you will find this publication useful in dealing with veterans issues. Please do not hesitate to call should you have questions or comments.

Mitchell E. Bean
Director

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INTRODUCTION

Historically, the federal government has been responsible for the maintenance of the nation's armed forces; it has also been primarily responsible for the provision of benefits to veterans of the armed forces. Like most states, however, Michigan has chosen to supplement federal benefits with state-funded programs for veterans. In recent years, funding for Michigan's major veterans programs has been consolidated under the Department of Military and Veterans Affairs (DMVA); in 1997, the Veterans Affairs Directorate was created within the Department to oversee those programs.

The total Fiscal Year (FY) 2000-01 budget for the veterans programs administered by DMVA is \$63.9 million. This publication will provide an overview of how these funds are expended.

Following an executive summary of the information presented in this report, three sections are devoted to the major programs administered by the Michigan Department of Military and Veterans Affairs:

- " The veterans homes in Grand Rapids and Marquette,
- " The grants made to veterans service organizations, and
- " The emergency assistance and tuition grants made from the Michigan Veterans Trust Fund.

Two other sections will deal with the remaining Michigan veterans programs which have substantial fiscal implications: the veterans memorials for which funds have been appropriated over the last several years and the veterans property tax credit.¹ Subsequent sections will examine the overall trend in state spending on veterans programs over the last two decades and place Michigan's veterans programs in the context of the veterans programs offered by other states.

¹ This publication addresses the major programs funded by the state that are specifically targeted towards veterans. The publication *Veterans Benefits and Services Available Through Local, State and Federal Programs* provides a more complete listing of the various benefits available to Michigan veterans; it is available through the offices of Michigan state legislators.

EXECUTIVE SUMMARY

Veterans Homes

- " The census at the Grand Rapids Veterans Home increased from 622 to 706 between 1992 and 2000; the census at the D.J. Jacobetti Veterans Home in Marquette increased from 176 to 203 over that same time period. Over half of the current residents at the homes are veterans of World War II.
- " Currently, the homes have capacities of 755 (Grand Rapids) and 241 (Marquette). Eighty percent of these beds are designated for residents requiring full-time nursing care.
- " The State of Michigan provides approximately 40 percent of the operating revenue for the state's veterans homes in Grand Rapids and Marquette; the U.S. Department of Veterans Affairs provides approximately 25 percent and payments by the homes' residents make up the bulk of the remaining revenue.

Grants to Veterans Service Organizations

- " The grants the state makes to 11 veterans service organizations (VSOs) have received increases greater than 5 percent during each of the last three budget cycles. The FY 2000-01 appropriation for these grants is \$3.9 million.
- " In FY 1998-99, the VSOs reported combined benefit recoveries of \$146 million, representing \$45 in recoveries for each grant dollar appropriated.
- " Of the total VSO recoveries, 55 percent are classified as "confirmed and continued" compensation and pension benefits from the U.S. Department of Veterans Affairs; the remainders are either new benefits, increases in awards, or non-compensation/pension benefits.

Veterans Trust Fund

- " In FY 1998-99, Veterans Trust Fund expenditures were divided as follows:
 - P 49 percent for emergency assistance grants to veterans and their dependents,
 - P 23 percent for tuition grants to dependents of deceased, disabled, and missing-in-action veterans,
 - P 16 percent for state-level administrative costs, and
 - P 12 percent for county-level administrative costs.

- " In FY 1998-99, 5,095 out of 6,803 applications by veterans or their dependents for emergency grants were approved—an approval rate of 75 percent. Of the total applications, 68 percent were submitted by veterans of the Vietnam War (or their dependents).
- " Of the \$2,040,856 in emergency grants awarded for FY 1998-99, 69 percent of the funds were awarded for housing-related costs.
- " In real terms, total emergency grants awarded decreased by 83 percent from 1986 to 1996. This decline can be attributed both to economic factors and the growth of the Tuition Grant Program.
- " In FY 1998-99, 484 children of deceased, disabled, and missing veterans received tuition grants totaling \$962,592.
- " Growth in the amount of grant funds awarded through the Tuition Grant Program has moderated since 1996, when the provisions of the program were amended to limit the tuition benefits paid for each student under the program.

Veterans Memorials

Over the last several fiscal years, \$1.5 million General Fund/General Purpose (GF/GP) has been appropriated for the Michigan Vietnam Veterans Memorial, and \$653,000 GF/GP has been appropriated for the National World War II Memorial in Washington, D.C. Construction of both memorials is expected to begin in the near future.

Veterans Property Tax Credit

The total benefits provided by the alternate property tax credit for eligible servicepeople, veterans, and surviving spouses of veterans have decreased by 80 percent over the last two decades as the credit has lost value relative to the standard and senior citizen property tax credits.

Historical State Spending on Veterans Programs

- " Total state spending on veterans programs has increased by 169 percent over the last two decades. This increase has been driven almost entirely by growth in the state's financial contribution to the two veterans homes, which accounted for 75 percent of state veterans-related spending in FY 1998-99.
- " Growth (or decline) in state spending on individual veterans programs since 1980 has been as follows:
 - P Veterans homes (GF/GP funds only)—growth of 299 percent,
 - P Grants to VSOs—growth of 78 percent,
 - P Emergency grants paid—decline of 5 percent, and
 - P Tuition grants paid—growth of 46 percent.

- " Michigan's veterans population declined from 1,134,400 in 1980 to 898,000 in 1999, a decrease of 21 percent.
- " The downward trend in the veterans population is projected to continue over the next two decades, driven largely by the continued decline in the World War II veterans Population. This trend will be accompanied by an increase in the average age of the veterans population.

Veterans Programs in Other States

Of six types of veterans programs identified in a recent survey of the 50 states, Michigan offers three. Only eight states offer four or more of the six programs. The three types of programs identified in the survey which Michigan does not offer are personal loans, home loans, and education benefits for veterans.

VETERANS HOMES

The Grand Rapids Veterans Home has the longest history of any of the veterans programs currently funded by the state. It was established 20 years after the end of the Civil War by 1885 Public Act (PA) 152. An initial appropriation of \$100,000 was made for construction of the home, and \$50,000 was appropriated for the maintenance of the home in 1885-86. On December 31, 1886, the home opened its doors to 454 men.

Over time, the number of residents at the home has fluctuated substantially, as noted by the average census counts shown below:

- " In 1912: 1,142 (peak count)
- " In 1944: 223 (lowest count)
- " In the 1950s: about 1,000 (the majority of whom were veterans of World War I)
- " During the 1970s and through the present: about 750

Over the years, the home has seen numerous building additions, including construction of the first women's dormitory in 1894, which allowed for the admission of wives, widows, and mothers of veterans.² In 1970, the home was placed under the authority of the state Department of Public Health.

On May 27, 1981, the D.J. Jacobetti Veterans Home opened in Marquette to provide care for aged and disabled veterans from the state's Upper Peninsula. Both the Grand Rapids and Marquette homes were transferred by Executive Orders 1991-7 and 1992-1 to the Department of Military Affairs, which was subsequently renamed the Department of Military and Veterans Affairs (DMVA) by Executive Order 1997-7.

While DMVA has responsibility for the day-to-day operations of both homes, the homes have a Board of Managers statutorily responsible for setting rules and regulations for both homes and appointing two commandants (one for Grand Rapids and one for Marquette) to oversee the operations of the homes. As specified in 1885 PA 152 (as amended), the board is composed of seven members appointed by the Governor for staggered terms of six years:

- " Two from the Veterans of Foreign Wars,
- " Two from the American Legion,
- " One from the Disabled Veterans of America,
- " One from the American Veterans of World War II-Korea-Vietnam, and

² Reinder Van Til and James Van Vulpen, *Michigan Veterans' Facility Centennial: A Century of Caring* (Grand Rapids: West Michigan Printing, 1986), 2-5, 14, 36, 45, 57.

- " One at-large veteran who is not a member of the four organizations specifically allocated positions on the board.

Currently, the Grand Rapids and Marquette homes have bed space capacities of 755 and 241, respectively. In general, demand for the care provided by the veterans homes is steady enough that these beds are filled in a timely manner as they become open. To be eligible for admittance to the homes, an individual must have been honorably discharged from the United States armed forces having 1) served at least 90 days during a designated wartime period or 2) acquired a service-connected disability. A veteran must also be considered unemployable and be a resident of Michigan at the time of admission, unless he or she is an accredited Michigan veteran. Additionally, parents, widows, former spouses, and spouses of eligible veterans may be admitted to the homes.

Each home provides three levels of care:

- " **Domiciliary**
The domiciliary program provides care for ambulatory residents who function fairly independently and do not require 24-hour nursing care.
- " **Skilled Nursing**
Skilled nursing care is provided for those residents who may require a registered nurse anytime during a 24-hour period.
- " **Alzheimer's/Special Needs**
Both homes have units to provide care for residents with Alzheimer's disease; the Grand Rapids Home recently added a unit for residents who are dually (psychiatrically and medically) diagnosed.

Most of the residents at the homes require 24-hour nursing supervision. Of the 996 beds total at the two homes, only 199 (20 percent) are designated for domiciliary care.

As shown in **Table 1**, the majority of the veterans living at the homes are veterans of World War II, with veterans of the Korean and Vietnam wars making up most of the remainder. The number of Vietnam veterans living at the homes has increased significantly over the last few years, from 97 in 1997 to 137 in 1999. Table 1 also shows the number of women living at the homes: 52 at the Grand Rapids Home and 12 at the Jacobetti Home.

The current census figures represent substantial increases since DMVA took over responsibility for the homes in 1992. As shown in **Figure 1**, the census at the Grand Rapids Home increased by 84 residents from 1992 to 2000, while the census at the Jacobetti Home increased by 27 residents over that time period. These census increases are the result of expanded space at both homes. In specific, the census increase over the last few years at the Grand Rapids home is largely due to the addition of dual-diagnosis beds.

Table 1

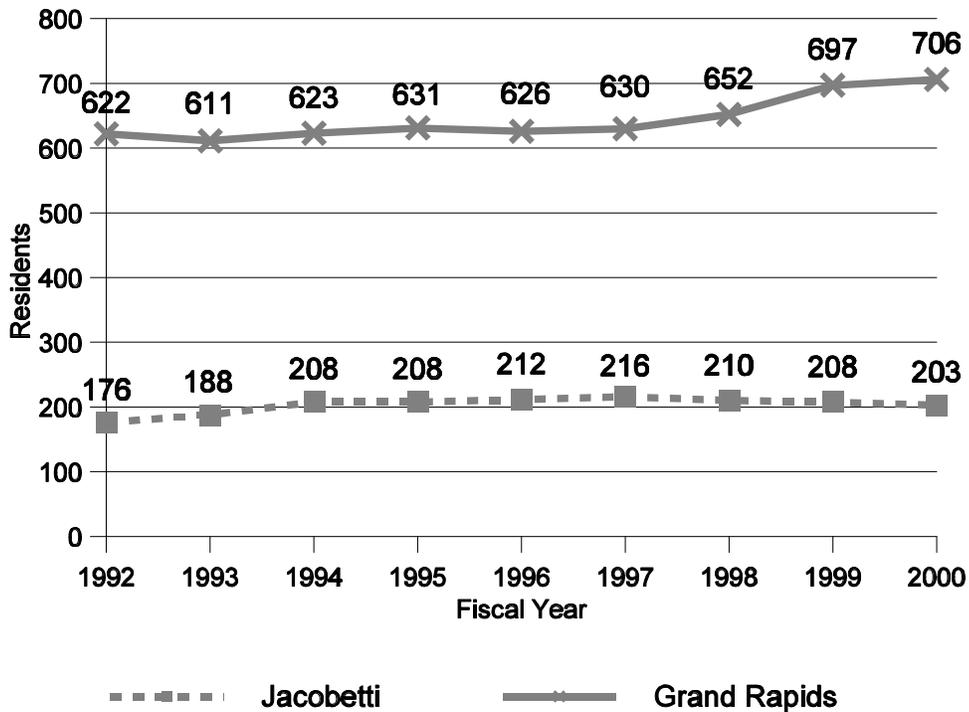
Veterans Homes Censuses by War Era and Gender
As of October 1999

	Grand Rapids		D.J. Jacobetti		Total
	Men	Women	Men	Women	
World War I	1	0	0	0	1
World War II	382	17	109	7	515
Korean War	112	2	32	0	146
Vietnam War	112	1	23	1	137
Cold War	46	0	29	0	75
Persian Gulf	0	0	1	0	1
Dependents	2	32	0	4	38
TOTAL	655	52	194	12	913

Source: Department of Military and Veterans Affairs

Figure 1

Veterans Home Censuses
Fiscal Years 1992 to 2000



Source: Department of Military and Veterans Affairs

Residents at the homes are assessed a monthly fee based on 1) the level of care provided, 2) whether a resident is a veteran or a dependent, and 3) whether the resident is eligible for federal aid. The assessed monthly fee is then adjusted; actual charges levied against members are based on ability to pay. The majority of the homes' revenue comes from federal and state sources rather than from the members themselves. **Table 2** presents the FY 2000-01 budgeted revenue sources for the two homes.

Table 2
Budgeted Veterans Home Revenue Sources
Fiscal Year 2000-01

<u>Revenue Source</u>	<u>Grand Rapids</u>		<u>Jacobetti</u>	
	<u>Appropriation</u>	<u>% of Total</u>	<u>Appropriation</u>	<u>% of Total</u>
DVA-VHA	\$11,688,200	28.1	\$3,311,900	25.5
HHS-HCFA, Medicare, hospital insurance	663,100	1.6	325,500	2.5
Income and assessments	13,537,600	32.6	4,189,300	32.2
Lease revenue	35,000	0.1	0	0.0
State General Fund/General Purpose	<u>\$15,615,400</u>	<u>37.6</u>	<u>\$5,165,800</u>	<u>39.8</u>
TOTAL	\$41,539,300	100.0	\$12,992,500	100.0

Source: Public Act 266 of 2000 (House Bill 5280)

The following explains the five sources of revenue for the homes:

" DVA-VHA

Per diem payments from the Veterans Health Administration of the U.S. Department of Veterans Affairs. These payments are based on the previous year's days of care for the homes. The current rate for nursing care is approximately \$40 per day and the rate for domiciliary care is approximately \$20 per day.

" HHS-HCFA, Medicare, Hospital Insurance

Payments from the Health Care Financing Administration of the U.S. Department of Health and Human Services. These payments represent Medicare revenue based on the number of residents at the homes who carry Medicare Part B.

" Income and Assessments

Payments from members and their families. This revenue includes social security, federal Veterans Administration pensions, private pensions, and private payments from families.

” **Lease Revenue**

Revenue received by the Grand Rapids Home from a third-party company (for the lease of space and equipment) which performs physical therapy services at the home.

” **State General Fund/General Purpose**

The State of Michigan’s financial contribution to the operations of the home. General Fund/General Purpose (GF/GP) revenue is discretionary revenue which can be appropriated for whatever purpose the Legislature specifies.

Based on the budget figures shown in Table 2, the State of Michigan provides for slightly less than 40 percent of the homes’ operating costs. The state’s portion of the total budgets for the homes has been at roughly this level since the homes were transferred to DMVA in 1992.

In conjunction with the financial contribution the U.S. Department of Veterans Affairs makes to the state veterans homes, the Department routinely inspects and audits the homes. As indicated in the following statement from the annual report on the homes submitted to the Legislature, the homes are also subject to state licensing standards:

In 1993 the U.S. Department of Veterans Affairs chose to enforce a regulation that state operated veterans homes meet their respective regulated nursing home licensing standards. Reinforced by supplemental appropriations in FY 1993-94 and increased funding in FY 1994-95, the Grand Rapids and D.J. Jacobetti Homes for Veterans met certification standards in December 1994. The Michigan Department of Public Health initially issued certificates of licensing in November 1995 and recertified both homes in 1997. Both homes continue to meet state licensing standards and fully comply with U.S. Department of Veterans Affairs regulations.³

³ Department of Military and Veterans Affairs, *Report on the Grand Rapids and D.J. Jacobetti Veterans Homes* (February 14, 2000), 3-4.

GRANTS TO VETERANS SERVICE ORGANIZATIONS

The first grant made by the State of Michigan to a veterans service organization (VSO) was a 1927 appropriation of \$27,200 to the American Legion. Shortly thereafter, the Veterans of Foreign Wars and the Disabled American Veterans were added as grantees. By 1960, a total of \$543,100 was appropriated for grants to five organizations, including the American Veterans of World War II and Korea (AMVETS) and the Marine Corps League.⁴ Over time, the number of organizations for which state grants were appropriated grew to twelve. Currently, eleven VSOs receive grants, while a token appropriation of \$100 is made to the Veterans of World War I.⁵

There has never been a statutory basis for these grants. The only legislative direction for the expenditure of grant funds, therefore, is the boilerplate language in the annual DMVA budget bill. This language states that the grant funds “shall be used only for salaries, wages, related personnel costs, training, and equipment for accredited veteran service advocacy officers and necessary support and managerial staff.”⁶ The veteran service advocacy officers supported by these funds, in turn, assist veterans (and in some cases their surviving spouses and dependents) in obtaining benefits, primarily from the U.S. Department of Veterans Affairs. These services are performed free of charge by the officers.

The services provided by Michigan’s VSO service officers are generally performed by state or county employees in other states. In essence, the State of Michigan has outsourced veterans benefit assistance by making grants to VSOs rather than operating its own agency for that purpose.

According to the combined annual report issued by the VSOs for FY 1998-99, there are 74.5 service officers provided by the 11 VSOs which receive grant funds. Forty of these officers and 35.5 support personnel operate from the VSOs’ state headquarters in Detroit; the remaining officers provide coverage for the state’s 83 counties.⁷ While the personnel supported by the state grants all serve the same basic purpose—providing assistance in

⁴ Bruce R. Baker, “Veterans Service Organization Grants” in Senate Fiscal Agency, *Notes on the Budget and Economy* (January/February 2000), 5.

⁵ This appropriation serves to maintain the organization’s membership in the Michigan Veterans Organizations Rehabilitation and Veterans Service Committee. Boilerplate language in the DMVA budget bill requires the other VSOs to serve veterans of World War I.

⁶ Section 501 of Public Act 266 of 2000 (House Bill 5280).

⁷ Michigan Veterans Organization Rehabilitation and Veterans Service Committee, *Annual Report of Combined Revenues and Activities for Fiscal Year 1998-99*, Part II.

obtaining veterans benefits—they each report to their respective VSOs rather than to the Veterans Affairs Directorate or some other central authority.

Table 3 provides a history of the grants made to the various VSOs over a five-year period, and **Figure 2** shows the annual percent increase in the total appropriation for the grants since 1988. Growth in the total appropriation for these grants was minimal in the late 1980s and early 1990s. However, since the mid-1990s, the Legislature has made these grants a priority. Fiscal year 2000-01 will mark the seventh straight year total grants have increased by at least 3 percent and the third straight year total grants have increased by at least 5 percent.

Table 3

Grants to Veterans Service Organizations
Fiscal Years 1996-97 to 2000-01

<u>Organization</u>	<u>Fiscal Year</u>				
	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>
Veterans of Foreign Wars	\$765,000	\$780,300	\$811,500	\$835,800	\$886,000
American Legion	696,500	710,400	738,800	835,800	886,000
Disabled American Veterans	632,400	645,000	670,800	690,900	732,400
American Veterans of World War II and Korea	401,300	409,300	425,700	438,500	464,800
Marine Corps League	290,500	296,300	308,100	317,300	336,300
Michigan Paralyzed Veterans of America	143,100	145,900	151,700	156,300	165,700
Purple Heart	136,300	139,100	144,700	149,000	157,900
Vietnam Veterans of America	47,800	96,100	146,100	150,500	159,500
Jewish Veterans of America	35,700	36,400	37,800	38,900	41,200
Polish Legion of American Veterans	35,700	36,400	37,800	38,900	41,200
Catholic War Veterans	11,400	11,600	12,100	12,500	13,300
Veterans of World War I	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Total	\$3,195,800	\$3,306,900	\$3,485,200	\$3,664,500	\$3,884,400

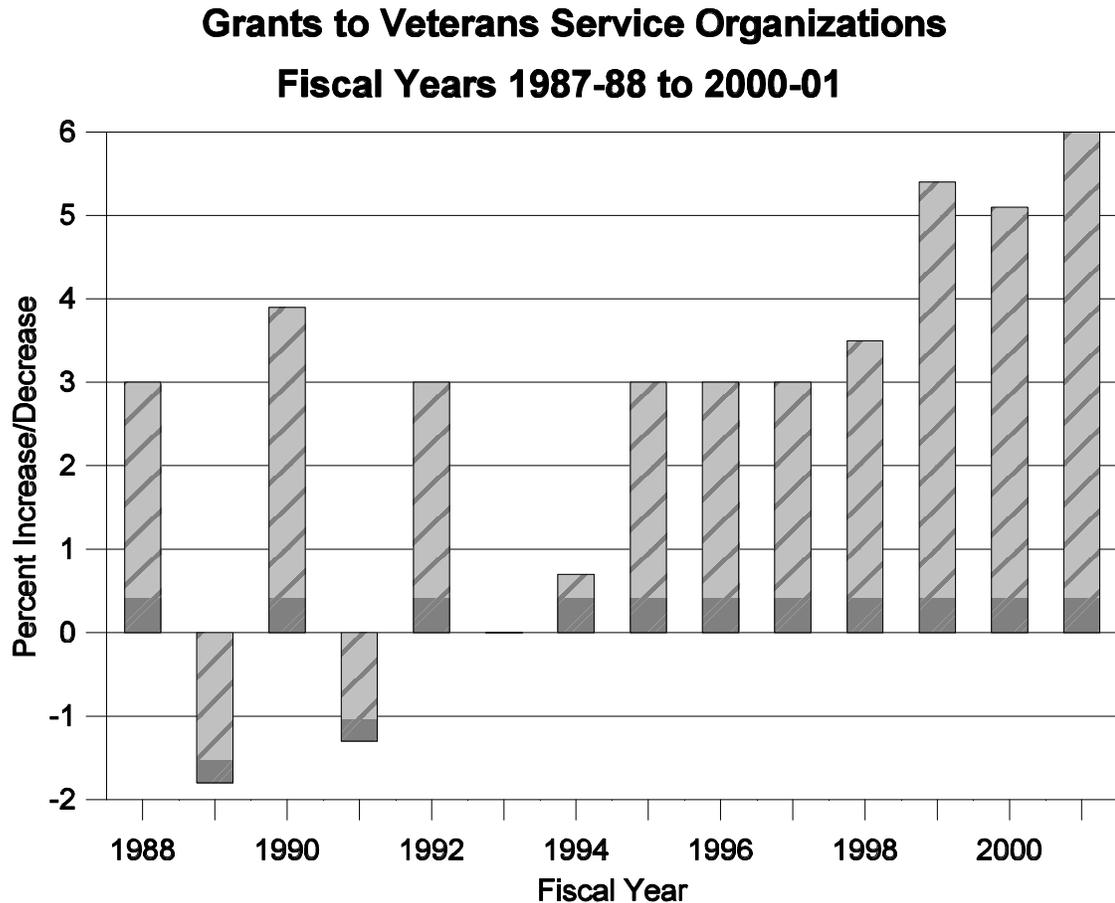
Source: Department of Military and Veterans Affairs budget acts

For FY 2000-01, the Legislature appropriated an across-the-board increase of 6 percent, bringing the total appropriation for VSO grants to \$3.9 million. In preceding years, individual VSOs have seen increases greater than the across-the-board increase. The Vietnam Veterans of America received increases of 101 percent and 52 percent in FYs 1997-98 and 1998-99, respectively; and the American Legion received an increase of 13 percent in FY 1999-2000. As there are no statutory guidelines for these grants, the funding levels are set solely at the discretion of the Legislature each year through the budget process.

In addition to providing funding increases for the individual VSOs, the Legislature has also chosen to provide funding for the training of county veterans counselors. These counselors are county employees who assist veterans in obtaining benefits (the county employees tend

to have more knowledge about benefits and services available locally, whereas VSO service officers have more expertise and qualifications in the area of federal veterans benefits). The Legislature has appropriated \$50,000 GF/GP in both FY 1999-2000 and FY 2000-01 for county veterans counselor training. These funds are administered by the state Veterans Affairs Directorate and have been used for costs associated with a state conference for the counselors and other relevant training activities.

Figure 2



*Sources:
Department of Military and Veterans Affairs budget acts
and House Fiscal Agency calculations*

One potential measure for determining the relative effectiveness of the grants is the benefits recovered for veterans by each VSO. Recovery figures are reported to the Legislature each year by the VSOs based on a boilerplate requirement and are limited to those benefits recovered through the work of the service officers funded by the state, as opposed to volunteer service officers. **Table 4** presents recoveries versus the appropriation for each organization in FY 1998-99. Across the 11 VSOs currently receiving grants, this figure varies from \$3 per dollar appropriated to \$71 per dollar appropriated.

Table 4

VSO Recoveries Versus Appropriations
Fiscal Year 1998-99

<u>Organization</u>	<u>Recoveries</u>	<u>Appropriation</u>	<u>Recoveries/ Appropriation Amount</u>
Vietnam Veterans of America	\$10,334,548	\$146,100	\$70.74
Disabled American Veterans	35,623,119	670,800	53.11
American Legion	38,701,199	738,800	52.38
Purple Heart	7,289,458	144,700	50.38
Veterans of Foreign Wars	35,459,466	811,500	43.70
Marine Corp League	10,802,459	308,100	35.06
American Veterans of World War II and Korea	14,859,372	425,700	34.91
Catholic War Veterans	226,348	12,100	18.71
Michigan Paralyzed Veterans of America	2,672,053	151,700	17.61
Polish Legion of American Veterans	194,589	37,800	5.15
Jewish Veterans of America	116,888	37,800	3.09
Veterans of World War I	<u>0</u>	<u>100</u>	<u>0.00</u>
Total	\$156,279,499	\$3,485,200	\$44.84

Source: Michigan Veterans Organizations Rehabilitation and Veterans Service Committee

Total recoveries for FY 1998-99 were \$156 million. This represents \$44.84 for each dollar appropriated to the VSOs. These figures include both new benefits claimed by veterans and benefits which have been confirmed and continued from previous years.

As shown in **Table 5**, the majority of the benefits recovered are compensation for service-connected disabilities and pension benefits. Other categories of benefits include insurance benefits for survivors; VA hospital admissions; educational benefits; death benefits, compensation, and pensions for survivors; and burial allowances. Of the total benefits recovered in FY 1998-99, 55 percent are classified as "confirmed and continued" compensation and pension benefits; the remaining 45 percent of the benefits are either new benefits, increases in award, temporary benefits, or non-compensation/pension benefits.

As a point of reference, the U.S. Department of Veterans Affairs reports that 83,821 Michigan veterans claimed a total of \$474 million in federal veterans compensation and pension benefits in FY 1998-99. The combined recoveries of \$129 million reported by the VSOs in those two categories represent 27 percent of this total.

In response to a legislative request, an audit of grants to VSOs is in progress. To date, the Office of the Auditor General has not released its final audit report.

Table 5

Combined VSO Recoveries by Category
Fiscal Year 1998-99

<u>Category</u>	<u>Claims</u>	<u>Recoveries</u>
Compensation:		
New Claims	841	\$9,547,496
Increases in Award	2,100	26,224,826
Hospital Ratings	269	1,437,112
Confirmed and Continued	<u>3,141</u>	<u>21,338,585</u>
Total	6,351	\$58,548,019
Pension:		
New Claims	1,086	\$11,083,748
Confirmed and Continued	<u>9,107</u>	<u>58,966,383</u>
Total	10,193	70,050,131
Other:		
Education Benefits	1,120	\$2,369,515
VA Hospital Admissions	558	3,317,938
Dependency and Indemnity Compensation	84	4,014,738
Death Pension—New Claims	400	1,646,244
Burial Allowances	1,670	110,959
Insurance	74	449,986
Special Categories	99	2,659,685
Eligibility Verification Report	56	128,492
Miscellaneous	<u>659</u>	<u>2,649,244</u>
Total	4,720	17,346,801
Grand Total	21,264	\$145,944,951

Source: Michigan Veterans Organizations Rehabilitation and Veterans Service Committee

VETERANS TRUST FUND

Public Act 4 of 1943 created a post-war reserve fund with an appropriated balance of \$50 million. In 1946, during the first extra legislative session of that year, the Legislature established the Veterans Trust Fund, provided for the transfer of the funds in the post-war reserve fund to the Trust Fund, and created a Board of Trustees to oversee the fund (1946 PA 9). As stated by the Board of Trustees shortly thereafter, “. . . the basic mission of the Michigan Veteran’s Trust Fund is to grant financial assistance to meet the emergent needs of qualified veterans and their dependents until plans can be made for more permanent care . . .”⁸ This financial assistance is provided strictly from the earnings of the fund, not from the \$50 million principal.

Over time, the fund balance has often been less than \$50 million.

- ” The fund was liquidated in 1959 to provide additional revenue for the General Fund.
- ” Originally, the fund balance was scheduled to be restored to \$50.0 million in 1971, but additional diversion of revenue led to the fund balance being only partially restored (to a level of \$47.9 million) before it was again liquidated to provide additional General Fund revenue in 1976.
- ” The balance of the Veterans Trust Fund was then scheduled to be restored to \$50.0 million in 1991, but again repayment was delayed as funds were diverted for other purposes (several of them veterans-related).
- ” Payments were made on schedule through FY 1987-88, but minimal payments were made in FYs 1988-89 to 1990-91.
- ” Payments of \$4.0 million and \$2.9 million were made for FYs 1991-92 and 1992-93, and a FY 1993-94 supplemental appropriation of \$11.5 million increased the fund’s balance to \$49.0 million.⁹
- ” The fund’s balance was fully restored by an appropriation of \$1.2 million in the FY 1996-97 Department of Military Affairs budget bill.¹⁰

⁸ Michigan Veterans Trust Fund, *The Michigan Veterans Trust Fund: A Summary of Its Origin, Scope, & Administration* (Lansing, MI: April 1950), 1-2.

⁹ Bruce R. Baker, *State Grant Programs for Veterans* (Lansing, MI: Senate Fiscal Agency, March 1996), 9-11.

¹⁰ The balance of \$49.0 million following the FY 1993-94 appropriation indicated a shortfall of \$1.0 million. It was subsequently determined, however, that a total of \$1.2 million was necessary to fully restore the Trust Fund balance (due to a 1976 transfer out of the fund).

During the extended period when the Trust Fund balance fell short of \$50 million, the Legislature made General Fund appropriations to offset the foregone earnings of the fund, so that assistance to veterans could be maintained.

In March of 1995, the Legislature passed House Joint Resolution H. The resolution placed on the November 1996 ballot a proposal to add the following language to Article IX of the State Constitution of 1963:

Sec. 37. The Michigan veterans' trust fund is established within the department of treasury. All money in the fund established by Act No. 9 of the Public Acts of the First Extra Session of 1946 shall be transferred to the Michigan veterans' trust fund. The trust fund may additionally receive appropriations, money, or other things of value. The state treasurer shall direct investment of the fund, and credit interest and earnings of the fund to the fund. Except for the state treasurer's actions authorized under this section, an expenditure or transfer of a trust fund asset, interest, or earnings may be made only upon the authorization of a majority of the members of the Michigan veterans' trust fund board of trustees.

Sec. 38. The Michigan veterans' trust fund board of trustees is established and consists of veterans honorably discharged from the armed services and appointed by the governor as prescribed by law.

Sec. 39. The Michigan veterans' trust fund board of trustees shall administer the Michigan veterans' trust fund. The board of trustees shall not authorize the expenditure or transfer of a trust fund asset, interest, or earnings unless the board of trustees determines in its discretion and by a majority vote that the expenditure or transfer is for the benefit of veterans or their spouses or dependents.

This ballot proposal was approved overwhelmingly by the state's voters, with 74 percent of the votes cast being for approval of the constitutional amendment. The effect of the new constitutional language is to prohibit the Legislature from diverting revenue from the Trust Fund for non-veterans purposes. The expenditure or transfer of Trust Fund assets, interest, or earnings must be authorized by a majority vote of the Board of Trustees, which is charged with determining that the use of funds is "for the benefit of veterans or their spouses and dependents."

Until 1968, investment earnings of the Trust Fund—and when the fund had been depleted, General Fund appropriations to offset the foregone earnings—were used solely for financial assistance to veterans. Beginning in 1968, a portion of the fund's earnings have been used to fund the state's tuition program for children of deceased, disabled, and missing veterans. In 1995, administrative responsibility for the Trust Fund was transferred from the Department of Management and Budget to the Department of Military Affairs.

Currently, the earnings of the fund are expended as follows: first, a portion of the earnings is budgeted for tuition payments and state-level administrative costs; the remainder is then utilized for emergency assistance grants to veterans and county-level administrative costs. **Figure 3** shows the method used to distribute the earnings of the Trust Fund.

Figure 3

VETERANS TRUST FUND DISTRIBUTION

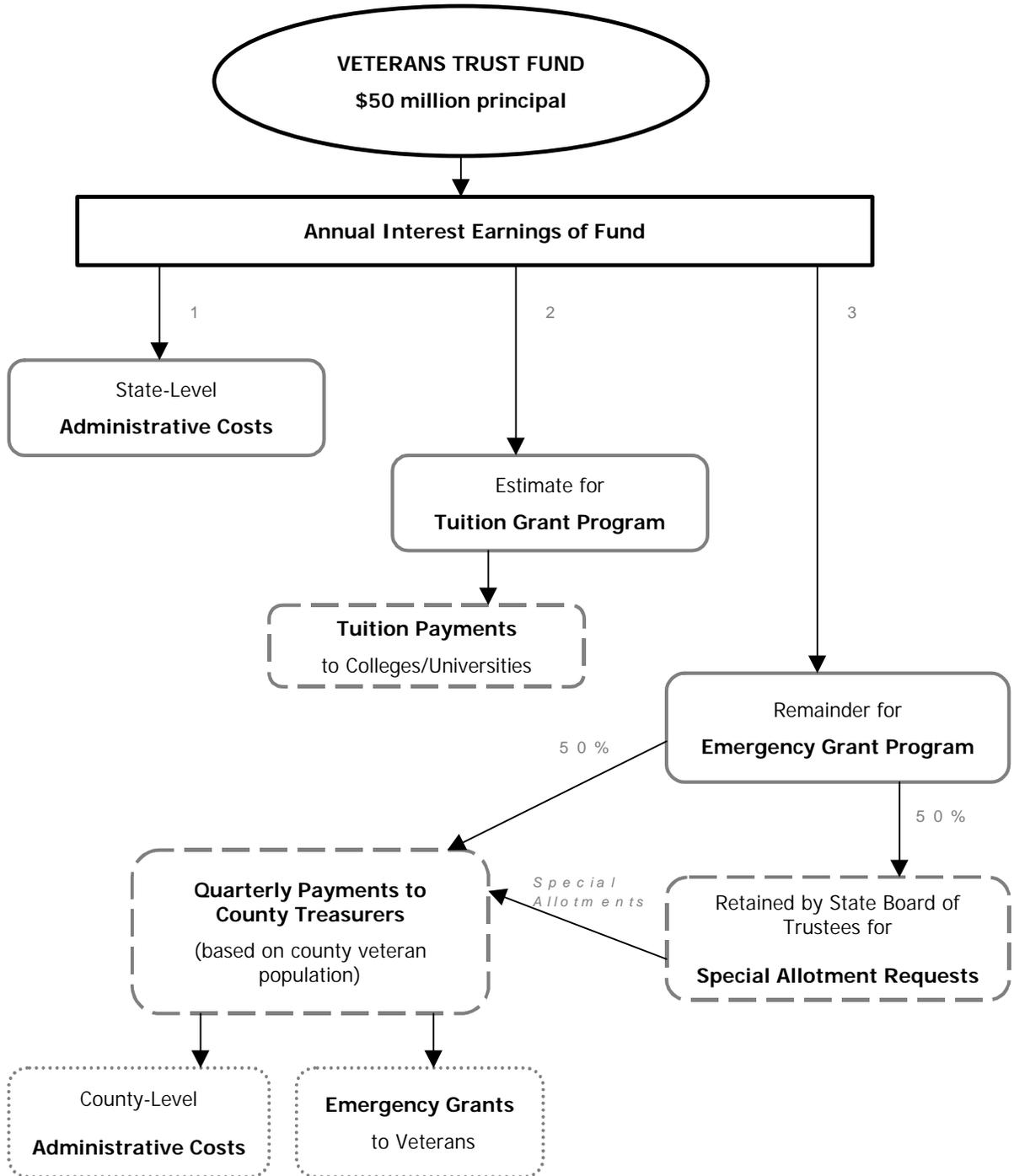
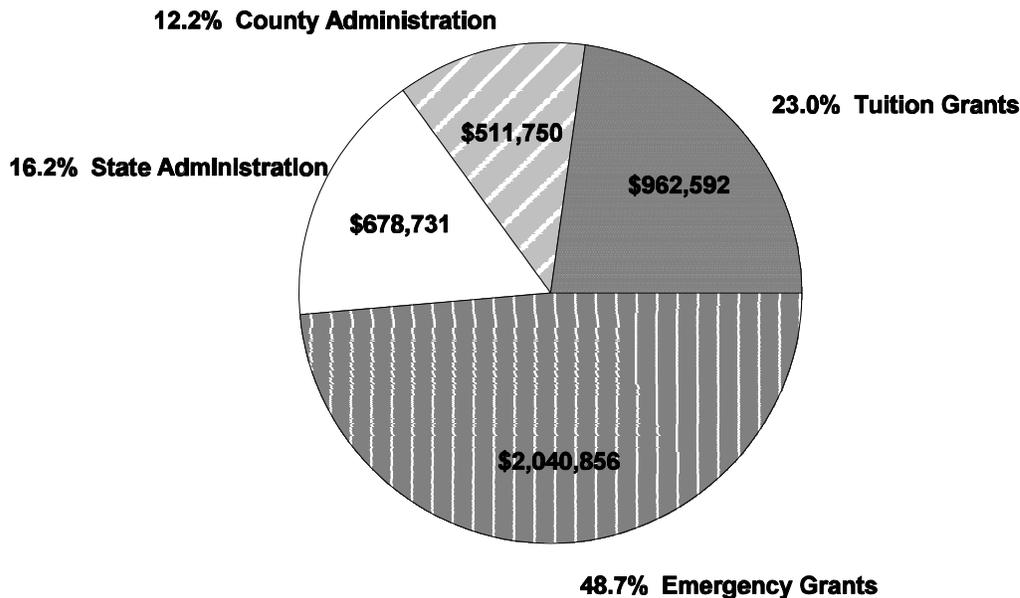


Figure 4 categorizes the expenditures made from the Veterans Trust Fund in FY 1998-99.¹¹ Combined, emergency grants and tuition grants accounted for 71.7 percent of total expenditures. The remainder of this section provides descriptions of these two programs.

Figure 4

**Veterans Trust Fund Expenditures
Fiscal Year 1998-99**



Source: Department of Military and Veterans Affairs

Emergency Grant Program

The original reason for creating the Veterans Trust Fund was to provide emergency grants to veterans needing financial assistance. Guidelines for awarding the grants are established in Public Act 9 of the first extra session of 1946 (as amended). This act provides for a Board of Trustees composed of at least six members, appointed by the Governor for staggered terms of three years. Six positions are specified in the act; these are allocated to four VSOs in the same numbers as the specified membership of the Veterans Homes Board of Managers (see Page 7). Currently, the board is composed of seven members; under the provisions of the act, the Vietnam Veterans of America became eligible for a position on the board in 1993.

Public Act 9 further provides that the Board of Trustees establish a veterans committee in each county of the state.¹² Each county's veterans committee is composed of three to five VSO representatives. The majority of county committees have one or more authorized agents. These agents serve as the primary contact for veterans seeking emergency grants

¹¹ The amounts shown in Figure 4 do not entirely reflect actual state expenditures in FY 1998-99; they reflect emergency grants paid by counties rather than distributions made by the state to the 83 counties for such grants. The difference this distinction makes in terms of the overall breakdown of the Trust Fund's earnings is negligible.

¹² Two or more counties may be combined for the purposes of forming a district committee. District committees have been formed for Houghton/Keweenaw counties and Alpena/Alcona counties.

and are paid a small stipend for their work, which is generally done on a part-time basis.¹³ (In counties without authorized agents, committee members act as the primary contacts for veterans.) There are no formal requirements to serve as an authorized agent; according to the Trust Fund's annual report, the Board of Trustees seeks to appoint individuals "possessing the interpersonal and basic administrative skills necessary, as well as a willingness to assist veterans and their families."¹⁴

Fifty percent of the budget for emergency grants is allocated to the 83 county treasurers for grant awards and administrative costs, based on the number of wartime veterans living in each county. The remaining 50 percent is retained by the Board of Trustees for special allotment requests from individual county veterans committees.

While the grant funds are disbursed to recipients by county treasurers, the county committees are responsible for approving grant applications. According to the policies established by the State Board of Trustees, the level of authorization necessary for grants of various amounts is as follows:

<u>Amount of Grant</u>	<u>(Minimum) Level of Authorization Needed</u>
Up to \$200	Authorized Agent
\$201 to \$500	Single member of county committee
\$501 to \$1,500	Two members of county committee
Above \$1,500	State Board of Trustees

To be eligible for a grant, an individual must have been a resident of Michigan prior to entering military service or have since established legal residence in the state and either 1) served in the armed forces for at least 180 days during a designated war era or 2) been separated from the armed forces prior to completion of 180 days of wartime service due to a service-connected disability.¹⁵ Legal dependents and unremarried widow(er)s of eligible veterans are also eligible to receive grants.

Grants are awarded only in cases of "emergent need." The official policies of the Board of Trustees define "emergent need" as follows:

. . . any emergency in the life of honorably discharged veterans and/or their legal dependents, who meet the prescribed eligibility requirements . . . , which necessitates immediate temporary assistance for food, fuel, clothing, shelter and other unforeseen emergencies. The Michigan Veterans Trust Fund (MVTF) was not designed to take the place of existing programs. It is designed to supplement these programs on a temporary basis and not on a long-term basis.¹⁶

¹³ These stipends vary by county; in some counties, county employees act as authorized agents and the county receives a payment for administrative costs. In Wayne and Oakland counties, a total of three state employees act as authorized agents for the county committees.

¹⁴ Department of Military and Veterans Affairs, *Report on the Michigan Veterans Trust Fund* (March 31, 2000), 2.

¹⁵ Veterans of World War I are required to have served at least 90 days. Veterans who earned the Armed Forces Expeditionary Medal during a designated period between wartime eras and served a minimum of 180 days on active duty are also eligible for grants.

¹⁶ Michigan Veterans Trust Fund, *MVTF Board Policy Manual* (May 2000), 1.

Applicants for emergency grants whose situations do not meet this definition are normally referred to other programs, including the Veterans Relief Fund that each county is statutorily required to operate.¹⁷

Table 6 shows the number of applications and approvals for emergency assistance grants over the last five years. Annually, an average of 6,820 applications have been received and 4,500 approvals granted over this time period. The percentage of grant applications approved has increased over the last five years. In FY 1998-99, 75 percent of applications were approved, as compared to 58 percent in FY 1994-95. This increase in the approval rate can be attributed at least partially to an increase in the funds available for the program over that time.

Table 6

Emergency Assistance Grant Applications
Fiscal Years 1994-95 to 1998-99

	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
Applications	4,255	3,915	4,585	4,650	5,095
Approvals	7,336	6,402	6,886	6,674	6,803
Approval Percentage	58.0	61.2	66.6	69.7	74.9

Source: Department of Military and Veterans Affairs

Figure 5 classifies the 6,803 applications for emergency grants submitted during FY 1998-99 by war era. Veterans of the Vietnam War (or their dependents) made up just over two-thirds of the grant applicants. The remaining applications were divided roughly equally between veterans of World War II, the Persian Gulf War, and the Korean War.

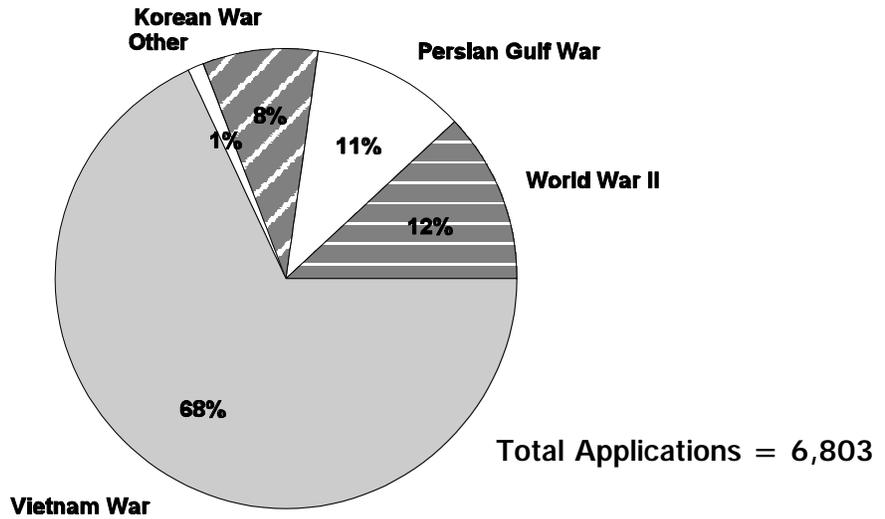
From the 6,803 applications received in FY 1998-99, 5,095 grants were approved. The funds awarded through these grants totaled \$2,040,856. **Figure 6** categorizes total grant funds by the type of financial emergency for which they were awarded. The three largest categories are rent, utilities, and mortgage. If shelter is added to this list, the housing-related categories represent 69 percent of total grant funds awarded. The remaining 31 percent of the grant funds were awarded for food, medical, transportation, and miscellaneous expenses.

¹⁷ The creation of this fund is required by Public Act 214 of 1899. The act provides for each fund to be supported by a property tax of up to 0.1 mills and administered by a Soldiers Relief Commission made up of three veterans.

Figure 5

Emergency Grant Applications by War Era

Fiscal Year 1998-99

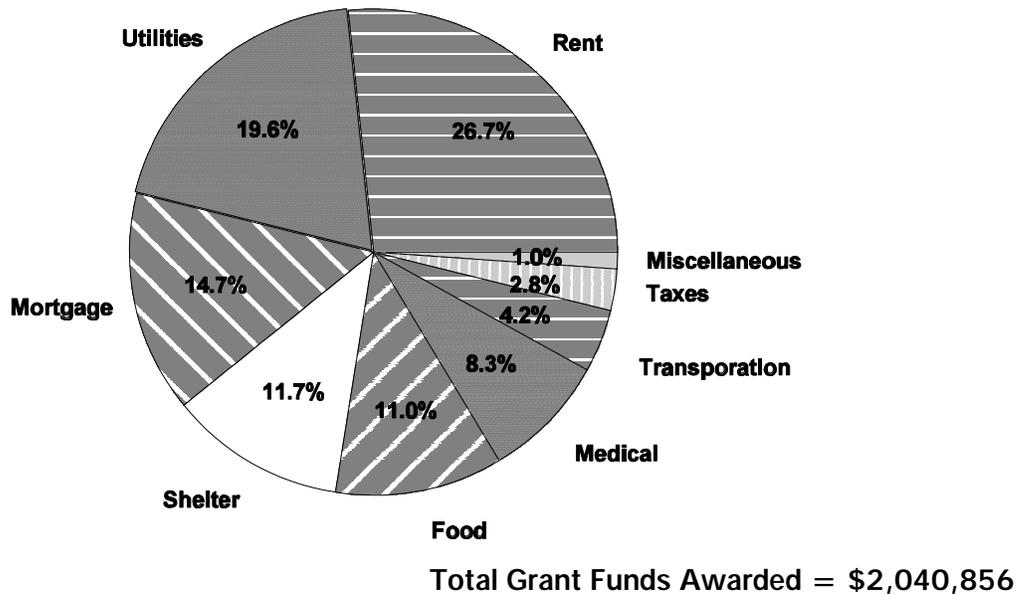


Source: Department of Military and Veterans Affairs

Figure 6

Emergency Grant Funds Awarded by Category

Fiscal Year 1998-99



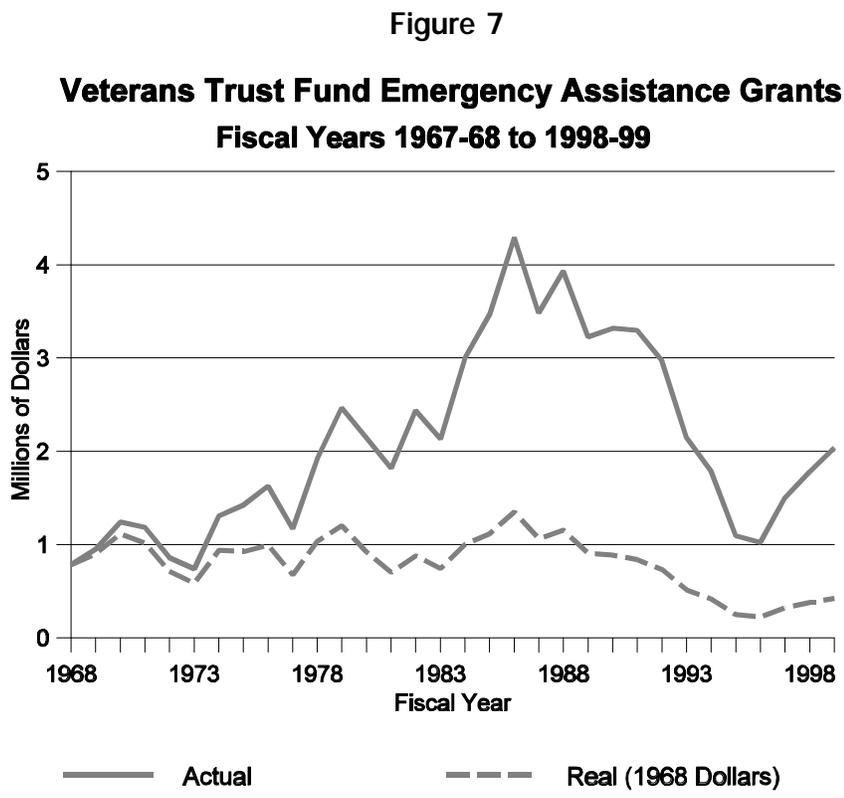
Source: Department of Military and Veterans Affairs

An effort has been made over the last several years to reduce county-level administrative costs, thereby increasing the funds available for grant awards by counties. Two examples of cost-saving initiatives are a reduction in the number of meetings held by some county committees and the replacement of some authorized agents with county employees through attrition. As a result of these efforts, county administrative costs decreased from \$773,337 in FY 1993-94 to \$511,750 in FY 1998-99.

County administrative costs in FY 1998-99 were equal to 25 percent of emergency grants awarded. This is down from 55 percent in FY 1995-96 when grant awards were at an all-time low. However, this is still higher than the 20 percent administrative costs level recommended by the Auditor General in a 1995 audit.¹⁸

State administrative costs have also been reduced over the last several years, decreasing from \$914,708 in FY 1993-94 to \$678,731 in FY 1998-99. This decrease is largely the result of staff reduction through attrition.

Figure 7 presents total emergency grants awarded from FY 1967-68 to FY 1998-99, both in real and actual terms; these years cover the time period in which both emergency and tuition grants have been paid from the Trust Fund’s earnings.



Sources: Department of Military and Veterans Affairs, U.S. Bureau of Labor Statistics, and House Fiscal Agency calculations

¹⁸ Office of the Auditor General, *Performance and Financial Audit of the Michigan Veterans’ Trust Fund* (Lansing, MI: October 1995), 7.

In actual terms, total emergency grants awarded tended to increase from FY 1967-68 to FY 1985-86, but then declined sharply until rebounding slightly for FY 1996-97 to FY 1998-99.

When the figures are adjusted for inflation, total grants awarded show fluctuation within a relatively fixed range during the 1970s and early 1980s, as the high inflation over that time period increased the short-term earnings of the fund but sharply eroded the value of the fund's principal. As a result of this erosion, inflation-adjusted total grants awarded declined by 83 percent from FY 1985-86 to FY 1995-96, during which time inflation (and therefore interest rates) were more moderate. While total grants awarded have increased over the last three fiscal years, they remain at an inflation-adjusted level lower than any fiscal year between 1966-67 and 1992-93.

The decline in the total amount of emergency grants awarded can be attributed to three causes:

” **Inflation**

As mentioned above, inflation has eroded the value of the fund's principal over time. In 1946 dollars (the year the fund was created), the current value of the fund's principal is less than \$8 million.

” **Lower Investment Earnings**

Investments of the Trust Fund are limited by Public Act 9 to government bonds, notes, and bills, the earnings of which are slightly lower than average historical levels, but substantially lower than the high-inflation years of the early 1980s. Currently the total annual earnings of the fund are approximately 6 to 7 percent.

” **The Tuition Grant Program**

Increases in college tuition rates have increased the impact the Tuition Program has on the fund, although changes have been made recently to limit the growth of the program. These changes are discussed in the next section of the report.

As the total amount of funds available for emergency grants has declined over the last decade and a half, the total number of grants awarded has also declined. As shown in **Table 7**, over 15,000 grants per year were awarded from FY 1985-86 to FY 1987-88, while only 4,000 to 5,000 grants per year have been awarded over the last several years.

While the total value of emergency grants awarded has declined dramatically over the last decade and a half, the average value of each grant awarded has increased. Table 7 also shows the average grant award over the last 32 years. Growth in the average award has tended to be moderate over time, more or less keeping pace with inflation.

Between FY 1995-96 and 1998-99, however, the average award increased from \$261 to \$401, an increase of over 50 percent. This increase is not the result of any explicit policy change, but rather reflects the anecdotal statement that “emergencies cost more than they used to.”

Table 7

Veterans Trust Fund Emergency Assistance Grants
Fiscal Years 1967-68 to 1998-99

<u>Fiscal Year</u>	<u>Grants Approved</u>	<u>Total Grant Funds</u>	<u>Average Per Grant</u>
1967-68	8,907	\$782,055	\$88
1968-69	9,641	946,418	98
1969-70	11,724	1,242,058	106
1970-71	12,584	1,184,820	94
1971-72	9,523	859,130	90
1972-73	7,184	739,437	103
1973-74	8,823	1,307,174	148
1974-75	10,423	1,421,890	136
1975-76	12,702	1,625,409	128
1976-77	8,916	1,168,447	131
1977-78	11,107	1,921,518	173
1978-79	13,635	2,467,070	181
1979-80	12,097	2,141,970	177
1980-81	11,748	1,818,264	155
1981-82	11,606	2,437,484	210
1982-83	10,428	2,133,271	205
1983-84	12,607	2,999,486	238
1984-85	13,793	3,463,039	251
1985-86	16,245	4,295,744	264
1986-87	15,338	3,482,717	227
1987-88	17,176	3,932,427	229
1988-89	13,998	3,226,405	230
1989-90	12,142	3,317,902	273
1990-91	11,122	3,294,683	296
1991-92	10,051	2,972,098	296
1992-93	7,932	2,148,183	271
1993-94	6,477	1,791,988	277
1994-95	4,255	1,093,519	257
1995-96	3,915	1,021,944	261
1996-97	4,585	1,500,865	327
1997-98	4,650	1,784,476	384
1998-99	5,095	2,040,856	401

Source: Department of Military and Veterans Affairs

Tuition Grant Program

The Tuition Grant Program was established by 1935 PA 245 to provide tuition grants to dependents of disabled and deceased veterans. Until 1968, this program was funded through a General Fund appropriation. Beginning in 1968, the Legislature decided to divert a portion of the earnings of the Veterans Trust Fund to pay tuition grants.

The use of Trust Fund earnings for the Tuition Grant Program fund has been a major issue for a number of years. In 1996, the Legislature amended 1935 PA 245 in an attempt to control the costs of the program. Over the preceding decade, the earnings of the Veterans Trust Fund had declined while tuition costs were rising rapidly. These trends had created a financial crisis of sufficient magnitude to cause the Veterans Trust Fund Board of Trustees to vote to temporarily suspend tuition payments from the fund. This suspension of payments was ultimately reversed, however, following criticism by the Governor and legal advice from the Attorney General.¹⁹

Under the current provisions of the act, children of certain Michigan veterans are eligible to have up to \$2,800 per year of undergraduate tuition and fees waived at a Michigan institution of higher learning. To be eligible, the child must be between the ages of 16 and 26, have been a resident of Michigan for at least a year, and be a full-time undergraduate college student. The child's veteran parent must have either 1) died on active duty, 2) died or been totally disabled as a result of a service-connected disability, or 3) been officially listed as missing in action. Eligible individuals have tuition and fee costs waived by the institution of higher education, which then bills those costs to the Veterans Trust Fund.

The major change included in the 1996 amendments was to limit annual tuition costs waived to \$2,800; previously, all tuition and fees were waived—although participants were limited to tax-supported institutions. Individuals who were already participants in the program in 1996, however, were grandfathered into the previous provisions, allowing them to continue to have all of their tuition and fees waived at a tax-supported institution and waiving the requirement that they be full-time students. The other major changes made in 1996 were to expand the eligible age bracket from 17-21 to 17-25 and limit costs waived to undergraduate tuition and fees.

Public Act 245 (as amended) places the Tuition Grant Program under the authority of the Veterans Trust Fund Board of Trustees and charges the board with determining eligibility for the program and satisfying itself as to the attendance and progress of program participants. The policy established by the board requires that a student maintain at least a 2.25 cumulative grade point average (GPA) to receive the tuition waiver. Individuals whose cumulative GPAs fall below this level are placed on academic suspension; suspended individuals become eligible to receive the tuition waiver again when their cumulative GPA exceeds 2.25.

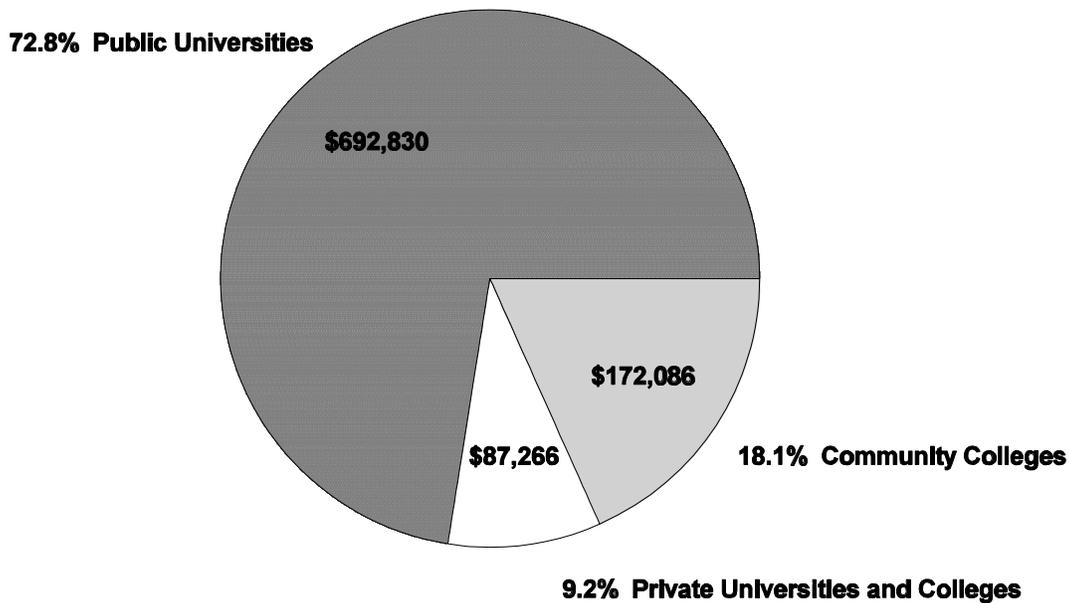
¹⁹ Bruce R. Baker, *State Grant Programs for Veterans* (Lansing, MI: Senate Fiscal Agency, March 1996), 29.

In FY 1998-99, the average cumulative grade point average for individuals receiving tuition assistance was 2.77; 212 otherwise eligible students were on academic suspension. As progress towards a bachelor's degree is not a requirement of the program, no data is maintained on the number of degrees earned by students participating in the grant program.

In FY 1998-99, a total of \$962,592 was awarded in tuition grants. As shown in **Figure 8**, nearly three-fourths of these funds were awarded to students at one of the state's 13 public universities. Students at private universities and colleges—which have been eligible institutions for the grant program only since 1996—accounted for less than 10 percent of the grant funds awarded.

Figure 8

**Tuition Grants by Type of Institution
Fiscal Year 1998-99**



Source: Department of Military and Veterans Affairs

Table 8 shows the number of grants and total grant funds awarded per year since 1968. While the number of students receiving tuition grants increased by only 13 percent from 1986 to 1995, total grant funds expended grew by 65 percent over that same time period due to increases in tuition rates. Since the 1996 amendments to the Tuition Grant Program's authorizing act, this growth has been moderated. In fact, the growth that has occurred since 1996 has been due primarily to an increase in the number of students participating in the program, rather than an increase in the average tuition grant.

Table 8

Veterans Survivor Tuition Grants
Fiscal Years 1967-68 to 1998-99

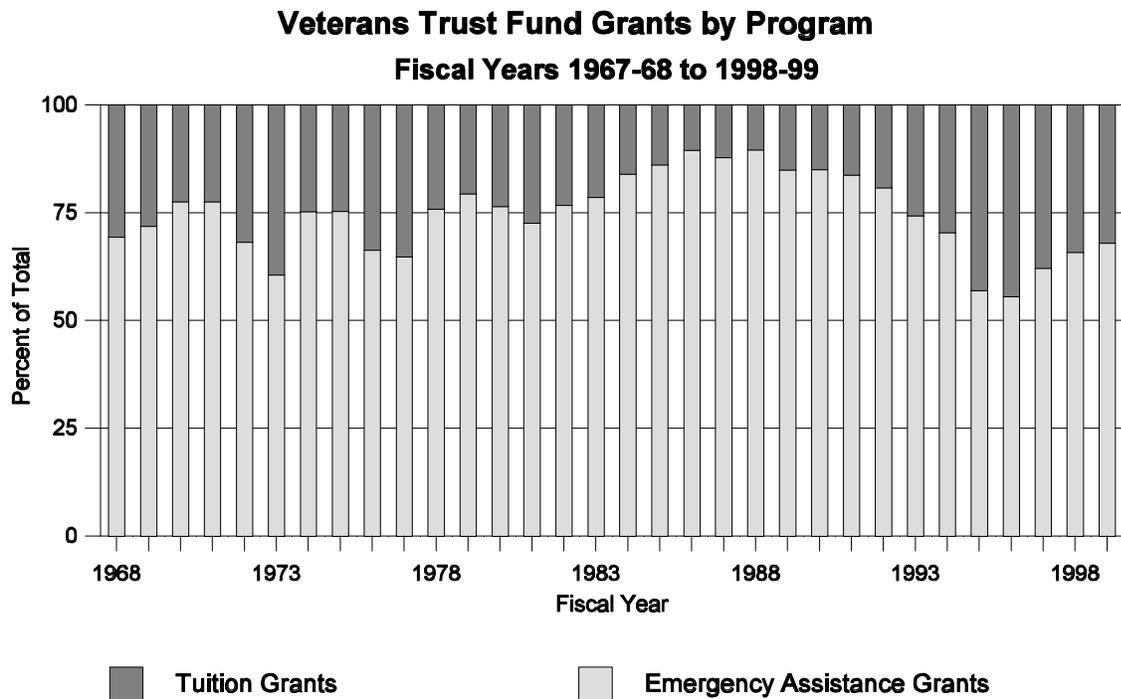
<u>Fiscal Year</u>	<u>Number of Grants</u>	<u>Total Grant Funds</u>	<u>Average Per Grant</u>
1967-68	1,078	\$345,690	\$321
1968-69	987	370,260	375
1969-70	969	359,835	371
1970-71	882	342,561	388
1971-72	930	399,999	430
1972-73	857	481,751	562
1973-74	932	429,507	461
1974-75	935	465,469	498
1975-76	1,298	824,924	636
1976-77	1,179	634,634	538
1977-78	1,055	611,231	579
1979-79	1,013	638,324	630
1979-80	872	658,846	756
1980-81	799	685,000	857
1981-82	645	737,437	1,143
1982-83	500	580,806	1,162
1983-84	483	572,363	1,185
1984-85	425	558,185	1,313
1985-86	372	500,460	1,345
1986-87	367	482,011	1,313
1987-88	405	454,921	1,123
1988-89	386	571,856	1,481
1989-90	412	583,443	1,416
1990-91	417	639,401	1,533
1991-92	446	703,704	1,578
1992-93	414	740,752	1,789
1993-94	420	753,723	1,795
1994-95	422	826,553	1,959
1995-96	423	817,106	1,932
1996-97	457	914,564	2,001
1997-98	474	925,071	1,952
1998-99	484	962,592	1,989

Source: Department of Military and Veterans Affairs

The impact of the Tuition Grant Program on the Veterans Trust Fund has been an issue of controversy for some time. **Figure 9** shows the total grants awarded from the Trust Fund over the last three decades by program (on a percentage basis). From 1986 to 1996, tuition grants took up an increasingly greater percentage of the total grant funds expended, reaching a peak of 44 percent in 1996. Since 1996, this trend has reversed as emergency grants have grown relative to tuition grants. Over this time, the Trust Fund's earnings have grown, while the total amount of tuition grants awarded has leveled off.

Tuition grants must be paid to any student eligible under the statutory guidelines. Tuition payments must, therefore, be budgeted out of the Trust Fund earnings before funds can be distributed for emergency grants. Thus, the Tuition Grant Program drives the allocation of Trust Fund earnings between the two programs. If the Trust Fund's earnings decline again in the future, the Emergency Grant Program would bear the financial impact of the decline.

Figure 9



Source: Department of Military and Veterans Affairs

VETERANS MEMORIALS

Public Act 234 of 1988—the Michigan Vietnam Veterans Memorial Act—created the Vietnam Veterans Memorial Fund and a nine-member commission to oversee the fund. Public Act 122 of 1992 designated a site at the west end of the Capitol Complex in Lansing for the memorial. In 1997, \$1.0 million General Fund/General Purpose (GF/GP) was appropriated in a FY 1996-97 supplemental appropriations bill toward the design and construction of the memorial.

These state funds were to be matched by private donations, but fund-raising efforts were initially unsuccessful. A 1998 Auditor General report noted that the commission had raised only \$232,000 (net of fund-raising costs) in FYs 1996-97 and 1997-98.²⁰ Recent fund-raising activities were more successful, and through June 2000 approximately \$900,000 was raised by the commission (net of fund-raising costs which have totaled approximately \$600,000).

Public Act 78 of 2000 was enacted with the purpose of raising additional funds for the memorial. The act provides for development of a Michigan Veterans Memorial fund-raising license plate. Individuals applying for such a plate are required to make a \$25 donation and pay a service fee of not more than \$10, the proceeds of which—after deducting manufacturing and administrative costs—will be credited to the Vietnam Veterans Memorial Fund.

In an effort to ensure that final construction of the memorial can be undertaken soon, the Legislature appropriated an additional \$500,000 GF/GP in a FY 1999-2000 supplemental appropriations bill. It is expected that the winning bid for the construction contract will be less than the approximately \$2.1 million now on hand and that construction can begin in the near future.

Over the last two years, the Legislature has also chosen to appropriate funds for the World War II Memorial to be built on the National Mall in Washington, D.C. Between a FY 1998-99 supplemental appropriation and a FY 1999-2000 appropriation in the capital outlay bill, a total of \$653,000 has been appropriated as a grant to the National World War II Memorial Commission—an amount equal to one dollar for each Michigan citizen who served in World War II. Nearly all of the \$100 million necessary for construction of the memorial has been raised, and groundbreaking for the memorial is scheduled for Veterans Day in November of this year.

²⁰ Office of the Auditor General, *Performance and Financial Audit of the Veterans Affairs Directorate* (Lansing, MI: February 1999), 15.

VETERANS PROPERTY TAX CREDIT

Michigan's state income tax was created by 1967 PA 281. Among the original provisions of the Income Tax Act was a tax credit based on property taxes paid. In 1973, the act was amended to create an alternate property tax credit for eligible servicepersons, veterans, and surviving spouses of veterans.

The current provisions of this credit allow for a tax credit determined by dividing a statutorily-specified taxable value allowance by the taxable value of the taxpayer's homestead and then multiplying the resulting percentage by property taxes paid. (Essentially, the credit is equal to a taxpayer's total local millage rate times the taxable value allowance.) A taxpayer who rents may compute property taxes paid by multiplying rent paid by 20 percent. The credit may not exceed property taxes paid or \$1,200, whichever is lower. The statutorily specified taxable value allowances have not been altered since the creation of the alternate credit in 1973 and are as follows:

<u>Category of Taxpayer</u>	<u>Percent of Disability</u>	<u>Taxable Value Allowance</u>
* Veteran with service-connected disability (or his/her surviving spouse)	10-50%	\$3,500
	60-80%	4,000
	90-100%	4,500
* Surviving spouse of veteran deceased in service		4,500
**Veteran of wars before World War I, pensioned veteran, his/her surviving spouse, or active military		3,500
**Surviving spouse of a nondisabled or nonpensioned veteran of the Korean War, World War II, or World War I		2,500

* Taxpayers in these categories are subject only to the income limit for the standard property tax credit, which begins to phase out at a household income level of \$73,650.

** Taxpayers in these categories cannot claim the alternate tax credit if household income exceeds \$7,500.

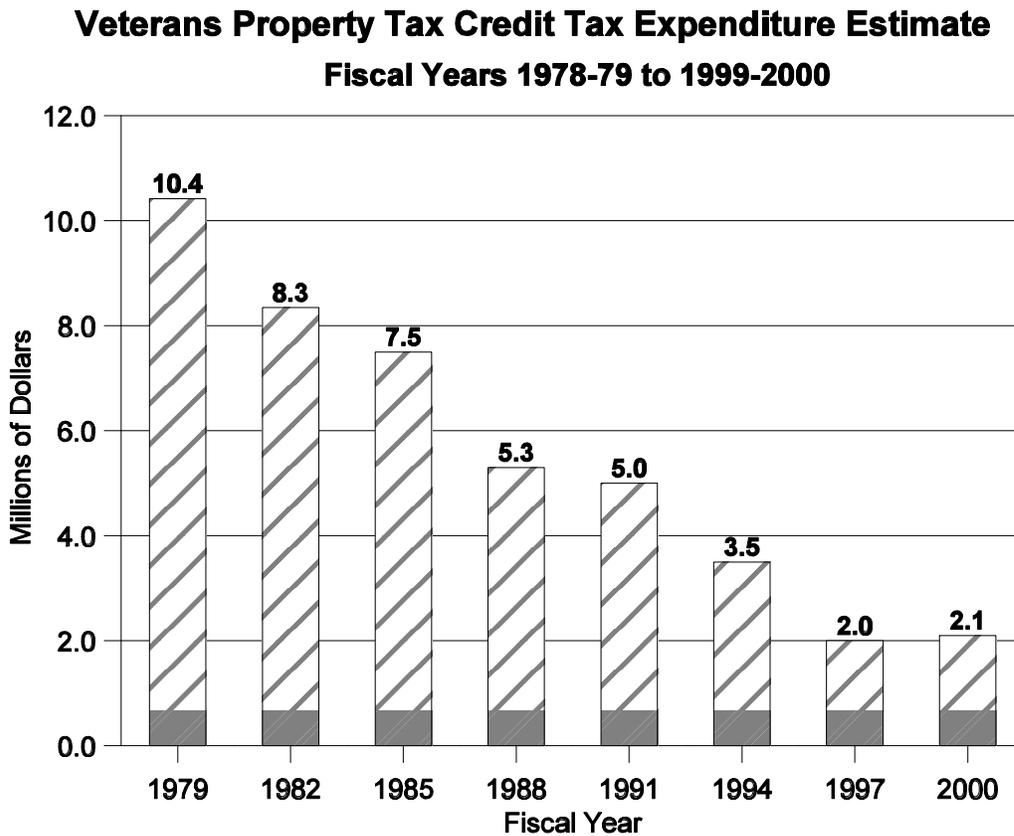
Nonpensioned, nondisabled veterans of World War II and later wars are not eligible for the credit, although the surviving spouses of nonpensioned, nondisabled veterans of World War II and the Korean War are eligible.

Finally, the alternate property tax credit is only claimed in cases where its provisions allow for a credit greater than the credit allowed under the standard or senior citizen property tax credits, both of which are based strictly on property taxes paid and income. Over time, the

alternate credit for servicepersons, veterans, and surviving spouses of veterans has lost value relative to the standard and senior citizen credits as inflation has eroded the value of the taxable value allowances. Additionally, fewer and fewer otherwise eligible taxpayers fall below the \$7,500 income limit.

The erosion in the alternate credit's value is illustrated in **Figure 10**, which shows tax expenditure estimates for the veterans credit over the last two decades. These tax expenditure estimates represent the total amount of tax credits claimed under the alternate credit's provision each year. This figure has declined from \$10.4 million for FY 1978-79 to \$2.1 million for FY 1999-2000, a decrease of 80 percent.

Figure 10



*Sources:
Michigan
Department of Management and Budget
and Michigan Department of Treasury*

HISTORICAL STATE SPENDING ON VETERANS PROGRAMS

Table 9 provides a rough measure of total state spending on veterans programs over the last 20 years. These figures exclude one-time legislative appropriations such as those for the Michigan Vietnam Veterans and National World War II memorials, as well as administrative costs associated with the veterans programs.²¹

Table 9

Total State Spending on Veterans Programs - Selected Fiscal Years

<u>Fiscal Year</u>	<u>Enacted GF/GP Appropriation for Veterans Homes</u>	<u>Enacted GF/GP Appropriation for Grants to VSOs</u>	<u>Actual Emergency Grants Paid</u>	<u>Actual Tuition Grants Paid</u>	<u>Estimated Total Spending</u>
1980	\$4,869,100	\$1,956,300	\$2,141,970	\$658,846	\$9,626,216
1985	6,187,800	2,236,800	3,463,039	558,185	12,445,824
1990	7,019,500	2,854,802	3,317,902	583,443	13,775,647
1995	20,137,600	3,012,400	1,093,519	826,553	25,070,072
1999	19,406,100	3,485,200	2,040,856	962,592	25,894,748
<u>Increase, 1980-1999</u>					
Amount	\$14,537,000	\$1,528,900	(\$101,114)	\$303,746	\$16,268,532
Percent	298.6%	78.2%	-4.7%	46.1%	169.0%

Sources: Department of Military and Veterans Affairs and budget acts

As shown in Table 9, estimated total spending for state veterans programs increased by 169 percent from 1980 to 1999. Inflation over this time period was only 107 percent, meaning that there has been a substantial real increase in veterans spending.

This increase has been driven almost entirely by growth in the state's contribution to the veterans homes, which has increased by almost 300 percent over the last twenty years as a result of establishment of the D.J. Jacobetti Veterans Home and subsequent growth and

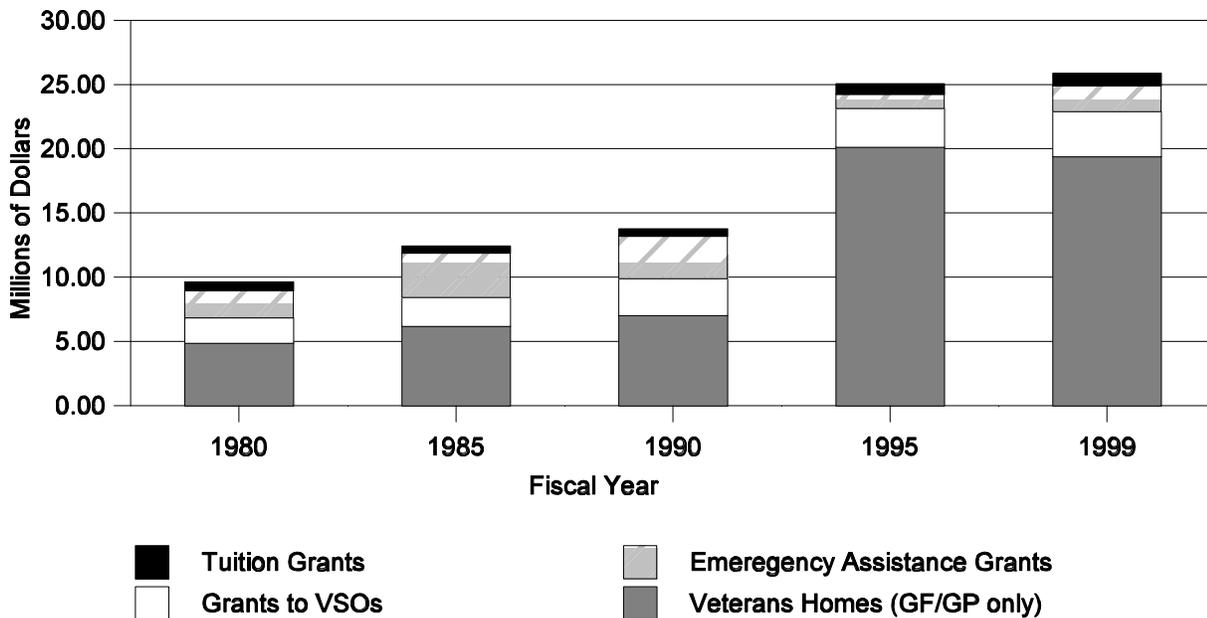
²¹ The veterans homes figures reflect appropriations rather than expenditures; they exclude supplemental appropriations, legislative transfers, and lapses. For the purposes of comparison over time, these adjustments should have a negligible effect. Also, the veterans home figures do not include federal and restricted funds expended by the homes. While these funds can be called "state spending," they are tied directly to the operations of the homes and do not represent discretionary funds which the state could spend for other purposes.

modernization at both homes. Grants to VSOs and the Tuition Grant Program have seen moderate growth, while the Emergency Grant Program experienced a slight decrease in grant expenditures.²²

As shown in **Figure 11**, GF/GP spending on the two veterans homes accounted for 75 percent of total state spending on veterans programs in FY 1998-99.

Figure 11

**Total State Spending on Veterans Programs
Selected Fiscal Years**



So
Sources: Department of Military and Veterans Affairs and budget acts

Over this same time period (1980-1999), the Michigan veterans population declined. The Michigan veterans population was estimated at 1,134,400 in 1980 and 898,000 in 1999, a decline of 20.8 percent. This overall decline is due primarily to a decline in the state's World War II veterans population. These trends are projected to continue into the future.

Figure 12 presents projections of the U.S. veterans population by period of service for the years 1990 to 2020.²³ The U.S. Department of Veterans Affairs estimates that the total U.S. veterans population will decrease by about one-third between 2000 and 2020, at which time the World War II veterans population will be negligible and the Korean War veterans

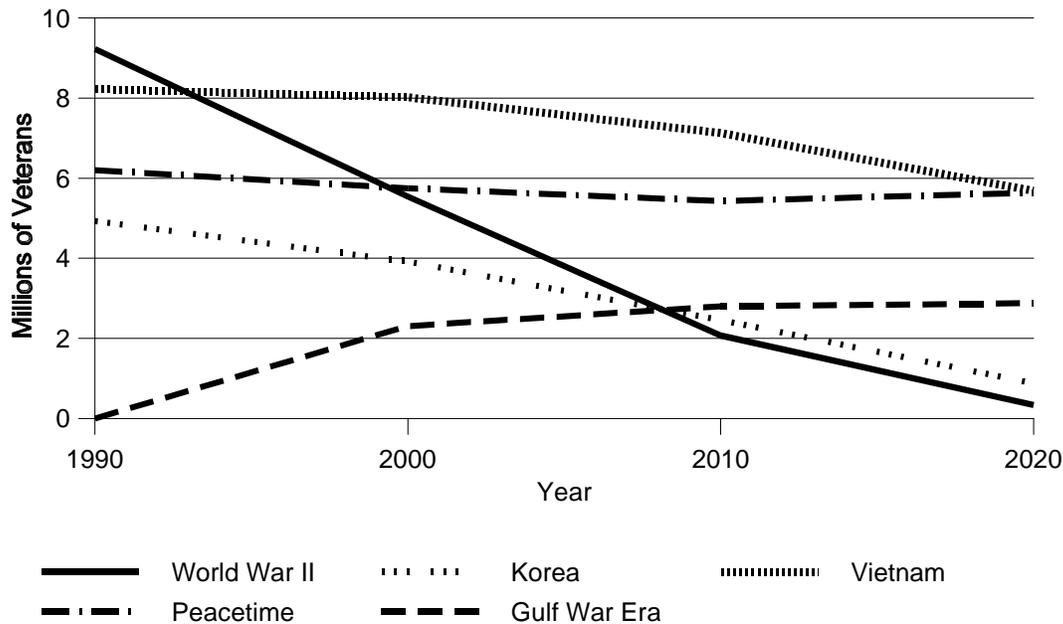
²² The fifth major state veterans program, the veterans property tax credit, has not been included in these figures as it is administered through the state tax code rather than the state budget. As noted in the previous section, the tax expenditure for this credit has decreased by 80 percent over the last twenty years.

²³ While these figures reflect U.S.—rather than Michigan—totals, there is no reason to think the veterans population trends in Michigan will differ substantially from those on the national level.

population will be nearly as small. Assuming the United States is not involved in a major war in the next 20 years, the two remaining war eras with veterans populations greater than one million will be Vietnam and the Persian Gulf, with peacetime veterans nearly overtaking Vietnam veterans as the largest group of veterans.

Figure 12

**Projected U.S. Veterans Population by Period of Service
1990 through 2020**



Source: U.S. Department of Veterans Affairs

While the veterans population is decreasing, the average age of that population is increasing. The percentage of veterans aged 65 or older is expected to increase from 38 percent in 2000 to 51 percent in 2020. Over this same time period, the total veterans population is projected to decrease by 34 percent, while the veterans population aged 65 or older is projected to decrease by only 12 percent.

In summary, the total amount of state spending on veterans programs has grown at a rate faster than inflation over the last two decades. The driving factor in this growth has been GF/GP spending on the two state veterans homes. Spending on the two veterans programs which serve a broader veterans population has grown more slowly (VSO grants) or declined (emergency assistance grants).

The projected downward trend in the state's veterans population over the next two decades may reduce the demands placed on the Emergency Grant Program and the services provided by the VSOs. Due to the aging of that population, the current level of demand for care at the veterans homes will likely be sustained. However, as the Jacobetti Home generally serves a smaller population (veterans from the Upper Peninsula), demand for care at the home will probably be more sensitive to the projected decline in the veterans population.

VETERANS PROGRAMS IN OTHER STATES

Like Michigan, nearly all of the other 49 states have chosen to fund various veterans programs. A tabulation by the Wisconsin Department of Veterans Affairs, utilizing responses from a 1997 survey by the National Association of State Veterans Affairs Directors, identified seven types of state veterans programs. Of the seven types of programs, one provides war bonuses for veterans. Michigan has offered bonuses for World War I, World War II, the Korean War, and the Vietnam War, but not for the Gulf War. Through 1997, six states had offered Gulf War bonuses: Illinois, Massachusetts, Minnesota, New Hampshire, South Dakota, and West Virginia.

Table 10 identifies the six remaining types of veterans programs included in the survey and the states that offer those programs. Michigan provides grants to veterans—a program which is not offered by the majority of states. Michigan also provides for the two most common types of state veterans programs: education benefits for dependents of deceased or disabled veterans and nursing care.

As shown in Table 10, the three programs offered by Michigan place it in the upper tier of states offering veterans programs. Only eight states offer more of the six veterans programs shown in the table than Michigan does. The three types of programs not offered by Michigan are personal loans, home loans, and education benefits for veterans.

In addition to the programs shown in Table 10, a number of states maintain state veterans cemeteries. These state cemeteries supplement the National Cemetery System operated by the U.S. Department of Veterans Affairs. Currently, there are 60 state veterans cemeteries located in 33 states. Under the State Cemetery Grants Program, the U.S. Department of Veterans Affairs provides 100 percent of development costs for approved state veterans cemetery projects, while the states are responsible for land acquisition and ongoing maintenance costs.

Michigan maintains one veterans cemetery, located at the Grand Rapids Veterans Home. Unlike most state veterans cemeteries, which are open to all veterans, the home's cemetery is restricted to deceased residents of the home.

Table 10

State Veterans Programs
1997

State	Personal Loans	Home Loans	Grants	Veteran Education Benefits	Family Education Benefits	Nursing Care	Total Programs per State
ALABAMA					X	X	2
ALASKA		X			X		2
ARIZONA						X	1
ARKANSAS					X	X	2
CALIFORNIA		X			X	X	3
COLORADO						X	1
CONNECTICUT			X			X	2
DELAWARE					X		1
FLORIDA					X	X	2
GEORGIA						X	1
HAWAII			X				1
IDAHO			X		X	X	3
ILLINOIS			X	X	X	X	4
INDIANA					X	X	2
IOWA					X	X	2
KANSAS					X	X	2
KENTUCKY					X	X	2
LOUISIANA					X	X	2
MAINE	X		X		X	X	4
MARYLAND					X	X	2
MASSACHUSETTS				X	X	X	3
MICHIGAN			X		X	X	3
MINNESOTA			X	X	X	X	4
MISSISSIPPI		*X				X	2
MISSOURI					X	X	2
MONTANA				X	X	X	3
NEBRASKA			X	X	X	X	4
NEVADA							0
NEW HAMPSHIRE					X	X	2
NEW JERSEY			X	X	X	X	4
NEW MEXICO				X	X		2
NEW YORK			X	X	X	X	4
NORTH CAROLINA					X		1
NORTH DAKOTA	X		X			X	3
OHIO					X	X	2
OKLAHOMA			X			X	2
OREGON		X		X		X	3
PENNSYLVANIA			X		X	X	3
RHODE ISLAND						X	1
SOUTH CAROLINA					X	X	2
SOUTH DAKOTA	X			X	X	X	4
TENNESSEE					X		1
TEXAS		X		X			2
UTAH						X	1
VERMONT				X		X	2
VIRGINIA					X	X	2
WASHINGTON			X	X		X	3
WEST VIRGINIA					X	X	2
WISCONSIN	X	X	X	X	X	X	6
WYOMING				X		X	2
DIST OF COLUMBIA					X		1
TOTAL BY PROGRAM	4	6	15	15	35	42	117

*Home loan program currently is inactive.

Source: Wisconsin Department of Veterans Affairs from National Association of Veterans Affairs Directors

CONCLUSION

Support of veterans of the nation's armed forces is and will continue to be almost entirely a federal responsibility. In FY 1998-99, the U.S. Veterans Administration spent just over \$1 billion in Michigan—the bulk of it on compensation/pension benefits and medical services. In comparison, the State of Michigan spent approximately \$26 million in state funds on veterans programs during that same fiscal year.²⁴ In other words, the federal government spends about \$39 on veterans programs in Michigan for every dollar the state spends.

In two cases, programs funded by the State of Michigan have direct connections to federal veterans spending: the two state veterans homes receive over one-fourth of their operating revenue from the U.S. Department of Veterans Affairs, and state grants to VSOs are utilized to assist veterans in obtaining benefits offered by the federal government.

Two other state veterans programs offer direct financial assistance to veterans. The Emergency Grant Program provides assistance to veterans facing temporary financial problems, and the alternate property tax credit for veterans provides tax savings to certain veterans and spouses of veterans. The Tuition Grant Program provides educational assistance to children of deceased, disabled, and missing veterans.

Finally, the state has chosen to make supplemental appropriations over the last several years to provide a portion of the funds necessary to construct both the Michigan Vietnam Veterans Memorial and the National World War II Memorial.

The State of Michigan has a long history of providing benefits to its veterans and their dependents. The Grand Rapids Veterans Home was established in 1885, the first VSO grant was made in 1927, the Tuition Grant Program was authorized in 1935, and the Emergency Grant Program was created in conjunction with establishment of the Veterans Trust Fund in 1946. In recent decades, the alternate property tax credit for veterans was created in 1973, and the D.J. Jacobetti Veterans Home was established in 1981.

Over the last twenty years, there has been a substantial increase in state spending on veterans programs. This increase has been driven by growth in the state's financial contribution to the two veterans homes. During the same time period, the state's other veterans programs have seen moderate growth or decline in expenditures.

Further changes can be expected in the decades ahead. In particular, the relationship between the Emergency Grant and Tuition Grant programs funded by the Veterans Trust Fund will continue to evolve; and the aging of the state's veterans population can be expected to result in sustained demand for the care offered by the state's veterans homes.

²⁴ As shown in Table 9.

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